

Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-05 CIAE-00 COME-00 DODE-00

 DOTE-00 INR-07 NSAE-00 FAA-00 IO-10 /042 R

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CAB - E. WILBUR

EUR/CAN - D. BLAKEMORE

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R 221909Z DEC 75

FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

UNCLAS STATE 300435

E.O. 11652: N/A

TAGS: EAIR, CA

SUBJECT: CIVAIR: AIR FARES

REF: OTTAWA 4645

1. EMBASSY SHOULD REQUEST CANADIAN AUTHORITIES TO RE-
CONSIDER THEIR EXPRESSION OF DISSATISFACTION WITH UNITED
AIR LINES' AIR FARES, USING FOLLOWING ARGUMENTS:

A. DISCOUNT FARE CAPACITY ALLOCATION CONCEPT INVOLVED IN
PROPOSED AIR FARES IS INTENDED TO ENCOURAGE A MORE EFFICIENT
USE OF EXISTING AIRCRAFT CAPACITY. THE CONCEPT TAKES INTO
ACCOUNT THE VARIATION IN TRAFFIC DEMAND FROM MARKET TO
MARKET, WHETHER SEASONAL, TIME OF DAY, OR DIRECTIONAL, AND
ASSISTS IN COMPENSATING FOR THE UNSTABLE CURRENT AND
PROSPECTIVE FUEL COST SITUATION. .

B. THE PROPOSED DISCOUNT FARE PLAN WOULD ENTAIL FLIGHT-
BY-FLIGHT ALLOCATION OF DISCOUNT FARE CAPACITY, SUBJECT TO
A 35 PERCENT SEAT MAXIMUM. INDIVIDUAL CARRIERS WOULD
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CONDUCT THE ALLOCATION ON BASIS OF PAST EXPERIENCE ON

EACH FLIGHT. AN ARGUMENT MADE BY COMPLAINANTS IS THAT THE 35 PERCENT MAXIMUM IS INSUFFICIENTLY RESTRICTIVE, AND THAT

CARRIERS WILL TEND TO OFFER A MAXIMUM NUMBER OF SEATS AT DISCOUNTS IN ORDER TO PRESERVE THEIR MARKET SHARES. WE BELIEVE THAT CARRIERS WILL ACT RATIONALLY, THAT IT IS DESIRABLE TO EXPERIMENT WITH A FARE THAT ATTEMPTS TO FILL OTHERWISE EMPTY SEATS, AND THAT IF SENSIBLY APPLIED, THE FARES CAN FACILITATE THE INCREASE OF REVENUES ON EXISTING FLIGHTS.

C. THE RISK OF FULL FARE DIVERSION IN SHORT-HAUL MARKETS IS MINIMIZED BY THE 7-DAY MINIMUM STAY AND 14-DAY ADVANCE PURCHASE PROVISIONS AND BY THE ABILITY TO LIMIT DISCOUNT FARE CAPACITY BY FLIGHT. WE BELIEVE THAT THE PROPOSAL FOR REDUCED FARES IS SUFFICIENTLY CONTROLLABLE TO PERMIT A TEST OF THE GENERATIVE POTENTIAL OF SUCH FARES IN SHORT-HAUL MARKETS WHERE DISCOUNT FARES HAVE NOT BEEN AVAILABLE FOR SEVERAL YEARS AND A SIGNIFICANT NUMBER OF SEATS GO UNUSED TODAY.

D. THE CAPACITY CONTROLLED EXCURSION FARE WOULD CONTRIBUTE TOWARD FARE SIMPLIFICATION SINCE UNITED PROPOSES TO CANCEL A NUMBER OF ITS EXISTING PROMOTIONAL FARES, ONCE THE PROPOSED FARE IS IMPLEMENTED.

2. WE SUGGEST FOREGOING BE COMMUNICATED TO EXTAFF BY NOTE, WITH COPY FOR ATC. EMBASSY MAY ALSO WISH DISCUSS MATTER INFORMALLY WITH ATC TO ASSESS HOW STRONGLY ATC FEELS. WE ARE PREPARED CONSIDER MORE FORMAL CONSULTATIONS DEPENDING ON ASSESSMENT OF CANADIAN POSITION. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AVIATION AGREEMENTS, AIR FARES, DIPLOMATIC NOTES
Control Number: n/a
Copy: SINGLE
Draft Date: 22 DEC 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE300435
Document Source: CORE
Document Unique ID: 00
Drafter: AJRIMAS:DAP
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750444-0857
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751221/aaaaasom.tel
Line Count: 92
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 OTTAWA 4645
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 18 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <18 JUN 2003 by ReddocGW>; APPROVED <03 FEB 2004 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIVAIR: AIR FARES
TAGS: EAIR, CA, US, UNITED AIRLINES
To: OTTAWA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006